

DEBT MANAGEMENT PROGRAM

OUTSTANDING DEBT

As of June 30, 2004, the City of Salisbury will have \$59,298,496 in outstanding debt for all funds. The type of debt with the breakdown between funds is shown below:

General Fund:	
General obligation bonds	\$ 2,465,000
Capital leases	<u>4,364,312</u>
	<u>\$ 6,829,312</u>
Water and Sewer Fund:	
General obligation bonds	\$ 14,370,000
Revenue bonds	21,455,000
Capital leases	3,341,606
State Clean Water Revolving Loans	<u>13,302,578</u>
	<u>\$ 52,469,184</u>
Total	<u>\$ 59,298,496</u>

General Fund

The City has lease agreements to finance the acquisition of various equipment. These agreements qualified as capital leases for accounting purposes (titles transfer at the end of the lease terms) and, therefore, were recorded at the present value of the future minimum lease payments as of the date of their inception. These lease agreements are outlined as follows:

Lease for capital building improvements from BB&T, dated December 29, 1999, payable in twenty semi-annual installments of \$63,331.96 at an effective annual interest rate of 4.73%.

Lease for capital improvements of facilities from Bank of America, dated December 22, 2000, payable in thirty semi-annual installments varying from \$59,875 on June 22, 2001 to \$34,223 on December 22, 2015 at an effective interest rate of 5.3251%.

Lease for purchase of property from Farmers and Merchants Bank, dated February 24, 2003, payable in thirty-six monthly installments of \$3,292 on March 24, 2003 to February 24, 2006, in twenty-two monthly installments of \$7,372 on March 24, 2006 to December 24, 2007, and one payment of \$910,040 on January 24, 2008 all at an effective interest rate of 3.95%.

Lease for 800-trunking system upgrade from Wachovia Bank of North Carolina, dated April 12, 2004, payable in eighteen semi-annual installments of \$139,258.14 at an effective interest rate of 2.93%.

The construction and improvements to facilities funded by Wachovia Bank of North Carolina, BB&T, and Bank of America are complete. All improvements are recorded at their construction cost upon completion. The purchase of property, funded by Farmer and Merchants Bank, has been recorded at its present value.

In November 1995, the City issued \$355,000 general obligation bonds for parks and recreational improvements. These bonds were issued at an average rate of 5.2756%, maturing serially to 2006.

In December 1997, the City issued \$3,000,000 general obligation bonds for parks and recreational improvements. These bonds were issued at an average rate of 4.79%, maturing serially to 2017.

Future maturities and interest on General Fund long-term debt are:

Year Ending June 30,	General Obligation Bonds		Capital Leases		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 200,000	\$ 118,400	\$ 386,937	\$ 163,679	\$ 586,937	\$ 282,079
2006	190,000	108,650	408,084	148,742	598,084	257,392
2007	200,000	99,550	447,174	132,348	647,174	231,898
2008	200,000	90,050	1,334,932	100,450	1,534,932	190,500
2009	200,000	80,550	407,316	63,692	607,316	144,242
2010	200,000	70,950	349,702	47,945	549,702	118,895
2011	200,000	61,350	287,833	36,453	487,833	97,803
2012	200,000	51,750	287,833	26,463	487,833	78,213
2013	200,000	42,150	287,833	16,396	487,833	58,546
2014	200,000	32,550	66,667	7,987	266,667	40,537
2015	200,000	22,950	66,667	4,438	266,667	27,388
2016	200,000	13,350	33,333	890	233,333	14,240
2017	75,000	3,750	-	-	75,000	3,750
2018	-	-	-	-	-	-
Totals	<u>\$ 2,465,000</u>	<u>\$ 796,000</u>	<u>\$ 4,364,312</u>	<u>\$ 749,484</u>	<u>\$ 6,829,312</u>	<u>\$ 1,545,484</u>

Water and Sewer Fund

Long-term debt of the Water and Sewer Fund includes the following general obligation and revenue bond issues:

	Balance June 30, 2004
Water and Sanitary Sewer Series 1995, average rate of 5.2756%, issued November 1995, maturing serially to 2015	560,000
Water Bonds Series 1997, average rate of 4.79%, issued December 1997, maturing serially to 2008	250,000
Combined Enterprise Revenue Series 1998A, average rate of 4.87%, issued January 1998, maturing serially to 2018	1,610,000
Combined Enterprise Revenue Series 2002, average rate of 4.84%, issued April 2002, maturing serially to 2022 with terms in 2020 and 2027	19,845,000
Water Bonds Series 1998, average rate of 4.4%, issued June 1998, maturing serially to 2017	2,200,000
Refunding Water and Sewer Series 2003, average rate of 3.44%, issued August 2003, maturing serially to 2019	<u>11,360,000</u>
	<u>\$35,825,000</u>

The general obligation bonds were issued to finance the construction of facilities utilized in the operations of the water and sewer systems and are being retired by the resources of the Water and Sewer Fund. These bonds bear interest, payable semiannually, and are collateralized by the full faith, credit, and taxing power of the City. The combined enterprise revenue bonds were issued to finance the construction of facilities utilized in the operations of the water and sewer systems and are being retired by the resources of the Water and Sewer Fund. These bonds bear interest, payable semiannually, and are collateralized by the receipts of only the Water and Sewer Fund.

The Revenue Bond General Trust Indenture requires that the City must maintain certain debt covenants relating to reporting requirements, annual budgets, and minimum utility funds revenues. Net revenues available for revenue bond debt service can not be less than one hundred twenty percent (120%) of the long-term debt service requirement for parity indebtedness. The calculations of the City's revenue bond coverage for the last three years are as follows:

Fiscal Year	Gross Revenues (1)	Operating Expenditures(2)	Net Revenues Available for Revenue Bond	Debt Service Requirements (3)			Coverage
			Debt Service	Principal	Interest	Total	
2001	\$ 12,715,931	\$ 8,635,605	\$ 4,080,326	\$ 952,506	\$ 577,160	\$ 1,529,666	266.75%
2002	14,401,251	8,934,754	5,466,497	952,506	620,085	1,572,591	347.61%
2003	15,297,190	10,022,035	5,275,155	1,107,506	1,297,994	2,405,500	219.30%

(1) Total operating revenues plus investment earnings exclusive of revenue bond investment earnings.

(2) Total operating expenses exclusive of depreciation.

(3) Parity debt includes revenue bonds and N. C. State Clean Water Bonds only.

The City refunded a portion of the Refunding Bond, Series 1993, Sanitary Sewer, Series 1989, Sanitary Sewer, Series 1992, and Water & Sewer, Series 1995 August 2003. These bonds were refunded at an average interest rate of 3.44%, which produced a net interest cost savings of \$309,359.

The City has entered into various agreements to lease certain water and sewer distribution systems. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. Interest rates on these agreements range from 3.385% to 5.6%. The City has recorded water and sewer assets related to these leases at their fair market value of \$7,898,494. The future minimum lease payments at June 30, 2004 total \$4,311,275, including \$969,669 of interest. Upon completion of these lease payments the City will take ownership of the related assets.

In addition to this debt, the City also owes the State of North Carolina for debt issued through its Clean Water Revolving Loan program. Two of these loans were refinanced by the State of North Carolina reducing their average interest rate from 5.03% to 3.43% resulting in total savings over the remaining lives of the loans of \$573,284. Total Clean Water Debt is composed of the following four loans:

	<u>Balance June 30, 2004</u>
Clean Water Loan for Sewer purposes, average rate of 5.03%, issued July 1989, revised May 1, 2003 to 3.43% maturing serially to 2017	\$ 3,250,000
Clean Water Loan for Water purposes, average rate of 5.03%, issued January 1992, revised May 1, 2003 to 3.43% maturing serially to 2017	292,578
Clean Water Loan for Sewer purposes, average rate of 2.60%, issued June 1998, maturing serially to 2017	7,360,000
Clean Water Loan for Water purposes, average rate of 2.60%, issued January 1999, maturing serially to 2017	<u>2,400,000</u>
	<u>\$13,302,578</u>

Future maturities and interest of Water and Sewer Fund for all types of long-term debt are:

Year	General Obligation Bonds		Revenue Bonds		Clean Water Bonds		Capital Leases		Total	
Ending	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
June 30,										
2005	\$ 1,450,000	\$ 489,578	\$ 610,000	\$ 1,000,545	\$ 882,506	\$ 375,270	\$ 271,109	\$ 137,071	\$ 3,213,615	\$ 2,002,464
2006	1,440,000	436,115	630,000	980,534	882,506	350,063	270,612	126,307	3,223,118	1,893,019
2007	1,405,000	401,053	650,000	958,331	882,506	324,857	264,190	115,559	3,201,696	1,799,799
2008	1,330,000	360,915	675,000	934,226	882,506	299,650	260,847	104,983	3,148,353	1,699,773
2009	1,265,000	318,128	700,000	907,728	882,506	274,443	267,585	94,604	3,115,091	1,594,902
2010	1,245,000	277,728	730,000	879,336	882,506	249,236	274,409	83,860	3,131,915	1,490,159
2011	1,225,000	235,788	760,000	929,101	882,506	224,029	276,324	72,745	3,143,830	1,461,662
2012	1,210,000	192,388	795,000	812,472	882,506	198,822	283,334	61,480	3,170,840	1,265,161
2013	1,190,000	148,463	835,000	774,190	882,506	173,615	240,799	50,370	3,148,305	1,146,637
2014	1,175,000	103,794	870,000	737,479	882,506	148,408	240,799	40,830	3,168,305	1,030,510
2015	1,160,000	58,419	910,000	697,623	882,506	123,201	240,799	31,260	3,193,305	910,502
2016	175,000	12,375	950,000	655,277	882,506	97,994	240,799	21,690	2,248,305	787,335
2017	100,000	4,500	995,000	610,267	882,506	72,787	60,000	12,120	2,037,506	699,674
2018	-	-	1,045,000	562,162	610,000	47,580	60,000	8,670	1,715,000	618,412
2019	-	-	935,000	515,000	610,000	31,720	50,000	5,220	1,595,000	551,940
2020	-	-	980,000	468,250	610,000	15,860	30,000	2,320	1,620,000	486,430
2021	-	-	1,030,000	419,250	-	-	10,000	580	1,040,000	419,830
2022	-	-	1,080,000	367,750	-	-	-	-	1,080,000	367,750
2023	-	-	1,135,000	313,750	-	-	-	-	1,135,000	313,750
2024	-	-	1,195,000	257,000	-	-	-	-	1,195,000	257,000
2025	-	-	1,250,000	197,250	-	-	-	-	1,250,000	197,250
2026	-	-	1,315,000	134,750	-	-	-	-	1,315,000	134,750
2027	-	-	1,380,000	69,000	-	-	-	-	1,380,000	69,000
2028	-	-	-	-	-	-	-	-	-	-
Totals	<u>\$ 14,370,000</u>	<u>\$ 3,039,240</u>	<u>\$ 21,455,000</u>	<u>\$ 14,181,266</u>	<u>\$ 13,302,578</u>	<u>\$ 3,007,533</u>	<u>\$ 3,341,606</u>	<u>\$ 969,669</u>	<u>\$ 52,469,184</u>	<u>\$ 21,197,708</u>

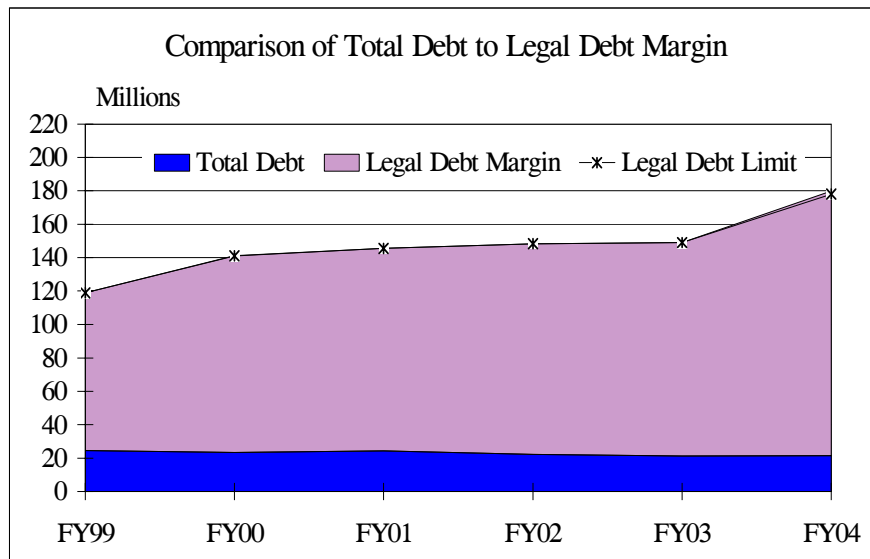
PROPOSED DEBT

The City of Salisbury currently anticipates issuing total debt during FY04-05 of \$5,556,180. The proposed debt is for two separate projects. Lease purchase financing of \$3,565,680 is proposed to fund building construction and renovation projects consisting of an addition to the Police Department Building, renovation of the existing building, and installation of a fire sprinkler system in the City Office Building. In addition to this project, the City anticipates lease purchase financing of a new fire substation for \$1,500,000.

These lease purchase financings are anticipated to be issued at 4.5% or less. These lease purchase debt service schedules are anticipated to cover fifteen years. Both will have level principal and interest payments.

LEGAL DEBT MARGIN

As shown, the City has maintained an ample legal debt margin. This margin is based on a debt limit of eight percent of assessed valuation less total debt as required by North Carolina General Statutes. The margin allows for the incurring of proposed debt to finance the needed water and sewer infrastructure projects as outlined in Section X-CAPITAL IMPROVEMENT PROGRAM. Furthermore, the City complies with the Debt Management Policy as defined in Section 2.



Computation of Legal Debt Margin at June 30, 2004

Debt limit: Assessed value of \$2,230,946,868 x 8%		\$ 178,475,749
Amount of debt applicable to debt limit:		
Total bonded debt	\$ 16,835,000	
Total capitalized lease obligation	<u>7,705,918</u>	
Total outstanding debt	\$ 24,540,918	
Less:		
Deductions allowed for water bonds issued	<u>2,450,000</u>	
Total amount of debt applicable to debt limit		<u>22,090,918</u>
LEGAL DEBT MARGIN		<u>\$ 156,384,832</u>

DIRECT AND OVERLAPPING DEBT⁽¹⁾

The table below shows the computation of direct and overlapping debt from the City and Rowan County. These amounts are as of June 30, 2003.

	Net General Obligation Debt Outstanding	Percentage Applicable to City of Salisbury	City of Salisbury's Share of Debt
City of Salisbury	\$ 2,645,000	100.00%	\$ 2,645,000
Rowan County ⁽²⁾	2,940,000	22.91%	<u>673,554</u>
Total direct and overlapping debt			<u>\$ 3,318,554</u>

⁽¹⁾ Based on assessed valuation.

⁽²⁾ Net debt and assessed valuation figures provided by Rowan County

